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THE INTERNATIONAL SILVER SITUATION.

I SHALL attempt in the following pages to survey the silver situation at large,— to weigh the evils which the present position of silver has brought with it, and to reach some conclusion as to the policy which it is now expedient for the gold-using countries to follow. In this discussion I shall consider mainly those larger aspects of the problem which connect themselves with the proposal for international bimetallism, and shall not direct the argument specifically to the questions raised by the demand for the free coinage of silver by the United States alone. The latter demand, it is admitted on all hands, must find in many ways a defence of its own; while the special difficulties and objections which it encounters are evaded, at least in good degree, by the wider proposal. Many of the arguments advanced in favor of independent action by the United States are indeed the same as those urged for international bimetallism; but many arguments advanced against free coinage in this country alone cannot apply against the wider proposal. The subject, even when limited to this stronger form of the demand for the rehabilitation of silver, can receive no detailed treatment

within the limits of a brief paper. I shall attempt only to follow the general arguments,—first, as to the difficulties, real and supposed, which the existing situation entails, and, second, as to the prospects and effects of an international agreement; concluding with an opinion as to the policy which the countries of advanced civilization may now expediently follow.

At the outset it must be readily admitted that on the subject of bimetallism in its international aspects there is a great divergence of opinion among those competent to form a judgment. Whether among the professed students and teachers of economics or among observant and well-informed men of affairs, it cannot be said that the weight of authority is all on one side. A poll of the economists would probably show a majority for the principle of international bimetallism and a very strong vote in favor of some specific mode of putting it into effect. Among men of affairs in the United States the fears and suspicions aroused by the cry for independent free silver have indeed caused a natural swing to the other extreme, and a feeling in favor of an unqualified and uncompromising gold standard. Yet the advocacy of international bimetallism by both political parties in this country, though doubtless due in good degree to the desire of political managers to conciliate the silver vote, indicates a general admission that this proposal is consistent with the principles of a sound currency. In European countries, and markedly in England, the permanent retention of the gold standard by all the great countries is by no means an article of universal faith in the business world, and certainly is less so now than it may have been ten or fifteen years ago.

These differences of opinion prove at least one thing with certainty: that all the truth can be on neither side. The question is one of pros and cons. The conclusion which the scientific investigator reaches must be the result of a balance of conflicting considerations, and must be

stated and maintained with the reserve inevitable after such a balance. The only satisfactory way in which a general opinion, and the grounds on which it rests, can then be stated, is by a consideration of the conflicting arguments, an examination of their weight on one side or the other, and a final statement of inevitably conditional and qualified conclusions.

I.

The serious evils which have been ascribed to the diminished use of silver and its lower price in terms of gold, are three. The first is the uncertainty and irregularity in the conduct of the exchanges between gold-standard and silver-standard countries. The second is the depreciation in the intrinsic value of a great part of the metallic money of the gold-standard countries, and the consequent top-heavy condition of their circulating medium. The third is the fall in prices and the consequences ensuing therefrom. These three may be examined in their order.

The fluctuations in the rates of foreign exchange between gold-standard and silver-standard countries have disturbing effects in more ways than one. Obviously, they introduce an element of speculation into all trade between such countries. Just as, during a period of inconvertible paper, the rapid changes in the specie price of the paper bring a gambling element into foreign trade, so the changes in the gold price of silver bullion and of silver exchange have the same effect. The more violent and abrupt the fluctuations, the larger the evil. Great and sudden changes, such as took place in 1890 and 1893, make it undeniably serious. If it be said that the striking fluctuations of the years mentioned were caused by political changes and by legislation, and not by conditions inherent in the use of the two metals, the answer can be fairly made that the influence of legislation is as inevita-

ble as in the case of paper money, and that, for the prevention of ill effects, all should be done by legislation which can be done.

Indeed, on any cool consideration of this aspect of the question, it is obviously absurd that the exchanges between countries should be disturbed by the differences in the mode in which they legislate on the commodities which form the basis of the world's circulating medium. Everything that has been urged in favor of international coins of identical weight and fineness speaks even more strongly — so long as gold and silver are both used in any event — in favor of international agreement as to the terms on which the two metals are to be used. It is far from a satisfactory state of things that we find in the present confusion of monetary systems, and we may hope for a future when something better and more harmonious shall take its place. If we conclude to accept things as they stand, it cannot be because they conform to any ideal, but because, on the whole, it does not appear — international relations and monetary conditions being what they now are — that anything better is within the bounds of the practicable.

On the other hand, it must be remembered that all trade contains elements of uncertainty, and that in the modern organization of industry something akin to gambling is inevitable in the dealings of all active managers of business. No doubt this is an argument in one way for diminishing, as much as possible, the element of pure chance. But it serves also to remind us that all the experience and all the habitual practice of the business world are already directed to meeting and minimizing such difficulties. The whole apparatus of middlemen, brokers, exchanges, exists for this purpose. Some of this apparatus doubtless represents a waste of energy; but, in the main, it is a necessary accompaniment of freedom in exchange and in investment, and, at all events, is small in size as compared to the industries to which it is attached.

Insurance against fluctuations in foreign exchange, as against other fluctuations, is usually to be bought at a small price. The evils from them become really serious and great only in times of transition, when conditions are changing, and no one can attempt to forecast what the future will bring. When once the situation is cleared, when the market has settled down, when the gold price of silver reaches a level at which it stands for some time, then trade adjusts itself with comparative ease to the new relation, and this particular difficulty shrinks to small dimensions.

A different evil, and in some ways a more serious one, appears in the indirect effects which fluctuations in the foreign exchanges may have on the international trade of the countries concerned. A fall in the gold price of silver bullion and in the rate of silver exchange does not always or easily bring with it a corresponding change in the range of prices in the silver countries. If silver bullion and silver exchange fall in the ratio of 2 to 1, the producer or exporter who sends commodities from a silver country to a gold country gets, at the same gold price, twice as high a silver price; while, conversely, the producer and exporter to the silver country gets, with the same silver price, one-half the former gold price; provided always, in either case, that both silver and gold prices remain unchanged. Now, substantially, this has been the general situation during the last ten or twenty years. Certainly, in the important silver-using countries — India, China, Japan, Mexico — the evidence seems to be conclusive that, while general prices have shown some upward trend, they have by no means risen to the extent that the gold price of silver has fallen. Hence exports from these countries have been stimulated, and imports to them have been hampered. If the gold price, say of wheat, remains the same, the Indian exporter, receiving more silver for his foreign exchange, gets a virtual bounty. If the gold price falls, he is able to endure the fall with

comparative equanimity. Conversely, the exporter to British India is handicapped to the degree that the prices of imported commodities fail to rise, or rise with difficulty; while his competitor within the country gains an advantage. Phenomena of the same sort show themselves in countries having a depreciated paper currency. The ease and rapidity with which general prices respond to the issue or retirement of paper money have been often overstated by writers on monetary subjects, and fluctuations in the paper price of specie and in foreign exchange have had larger effects on international trade than has been commonly supposed. In the case of the silver-using countries of the East, and more particularly in British India, such conditions of unstable equilibrium, so to speak, have maintained themselves for a considerable period in the past, and may continue for a long time in the future. The flow of specie to the East, which has gone on for centuries, has continued in much the same manner and as yet with much the same effects as before the fall in the price of silver. Great quantities of that metal have continued to go to the East, and there to sink away. Prices have responded but slowly and feebly; and, with the decline in the gold price of silver, the Indian producer of imported goods has had virtually the benefits of protection, while the Indian producer of exported goods has had virtually a bounty.

These general tendencies have been so fully discussed in economic literature, and of late made so much of in popular discussion, that even such a brief statement of them may seem superfluous. It is not to be denied that in fact there has been something in the nature of a bounty on exports from silver-using countries. Looked at broadly, it may be maintained, to be sure, that the process can work no general evil to gold-using countries. It is, in effect, an exchange of consumable and enjoyable commodities from the East for silver which, if retained by the West, could have been used only for monetary purposes,

and so would have been no immediate source of enjoyment. But this sort of reasoning cannot dispose of the whole case, for it is quite conceivable (as where paper money is substituted for specie) that evils from monetary disturbance far outweigh any gains from the exchange of specie for commodities.

The question then arises as to the extent of the dislocation of industry which has resulted from this incidental effect of the silver situation. And here it must be said that the degree of the change thus brought about in the currents of trade has been greatly exaggerated. Taking that phase which has been made most of in the United States,— the exports of wheat from British India,— we do not find either that they have been a large proportion of the international supply or that they have shown any tendency to rapid growth. The total contribution which British India has made to the world's wheat supply has never reached dimensions comparable to that made by the United States. Other causes have been much more effective in enlarging the supply and lowering the price of wheat; and the bounty (to use that name) from the fall in silver has rather enabled the Indian exporter to maintain his modest contribution than to add to it in such manner as to initiate the decline in the price of wheat.*

Probably the largest effect from the failure of prices in silver countries to respond to the fall in the gold price of silver has been felt in Great Britain. That country has

* The exports of wheat (including wheat flour) from the United States and from British India are here given, in millions of bushels: —

	United States (*year ending June* 30).	*British India* (*year ending March* 31).		*United States* (*year ending June* 30).	*British India* (*year ending March* 31).
1876 . . .	74.7	4.1	1886 . . .	94.6	35.1
1877 . . .	57.0	9.3	1887 . . .	153.8	37.1
1878 . . .	92.1	10.6	1888 . . .	119.6	22.5
1879 . . .	147.7	1.7	1889 . . .	88.6	29.3
1880 . . .	180.3	3.6	1890 . . .	109.4	23.0
1881 . . .	186.3	12.4	1891 . . .	106.2	23.8
1882 . . .	121.9	33.1	1892 . . .	225.7	50.5
1883 . . .	147.8	23.6	1893 . . .	191.9	24.9
1884 . . .	111.5	35.0	1894 . . .	164.3	20.2
1885 . . .	132.6	26.4			

a large export trade with silver countries; and her producers, in selling to these, have had to ask higher silver prices in order to get the same gold price. The higher silver prices have always met with the resistance which trade offers to such changes, especially where tradition and custom are as powerful as they are in half-civilized communities. Within the silver countries the rivals of the British manufacturers have had competition made easier for them. Here, probably, we find the largest quantitative effect of the course of silver exchange; and it accounts in large degree for the undeniably greater favor which bimetallic proposals are meeting among the English industrial classes.

The second evil which arises from the changed relation of silver to gold is the presence in many — indeed, almost all — of the gold-standard countries of a great mass of overvalued silver, having full legal tender quality and yet of much less intrinsic value than its nominal value. This silver money, being limited in quantity, and free coinage being suspended, circulates within the limits of each country on the same terms with gold; but it is not available for international payments, and depends for its present value on the retention by the respective communities of a sufficient stock of gold to meet international demands and to preserve general confidence in the solid maintenance of gold payments. France, Germany, the United States, Holland, Belgium, Switzerland, all have a currency thus unstable and top-heavy. It is beyond question that the monetary conditions of these countries would be much more satisfactory if their entire stock of specie were equally good, if all were fully available for every purpose, and no part were dependent for its purchasing power on the retention of the other part.

At the same time this, again, is an evil more in its nature than in its extent. A large portion of the over-valued

coin may be regarded as virtually subsidiary money, easily regulated and controlled. As to the rest, so long as a solid and sufficient gold basis exists, no great difficulties need arise from the retention of a considerable mass of over-valued silver. The evil becomes menacing only if a large proportion of the metallic money is of this sort. Germany need not fear much from a stock of over-valued thalers which is balanced by six times the quantity of gold; though, curiously enough, more is heard about this threatening aspect of the silver situation from Germany than from any other country. France has a great stock of silver five-franc pieces, yet a stock of gold so much greater that she need not be seriously uneasy. Belgium and Switzerland also are reasonably well off. Holland is slenderly equipped with gold, but manages to avoid serious complications. The United States has a mass of silver dollars (including silver certificates) no greater than France's stock of five-franc pieces; and, if the rest of the American circulating medium were as sound as that of France, the silver would not be unmanageable. The difficulty in the United States is that, over and above the silver, there is an even larger mass of government paper, and that the total of silver and paper has gone beyond the limits within which gold payments can be safely and easily maintained.*

* The following figures give in round numbers the quantities of gold and of full legal tender in the more important countries. They are taken from the circular of *Information respecting United States Bonds, Paper Currency, Coin*, issued by the Treasury Department of the United States under date July 1, 1896: —

[In millions of dollars.]

	Gold.	*Full legal tender silver.*
United States	600	430
Germany	625	105
France	850	430
Belgium	55	48
Switzerland	15	10
Holland	29	53

The amount of gold in the United States is probably much overstated. That of silver in the United States does not include the treasury notes of 1890,

On the whole, then, the situation, though not satisfactory, is not unbearable. If the way were clear either for a complete substitution of gold for all this overvalued silver, or for a rehabilitation of the silver which would make it as good as gold, a substantial gain would be secured. So long as neither can be done, the present conditions can be maintained without great strain. In the United States more particularly, when once it is settled that the gold standard is not to be departed from, a reorganization of the currency can be effected more advantageously by getting rid of the government paper than by discarding the silver. The retention of the silver would be dangerous mainly as an incitement to the coinage or issue of more of the same sort; a danger which is unquestionably real, but which indicates that the main cause of the currency difficulties of the United States lies in the state of public feeling which has led to the silver issues, and not in the general silver situation.

Still another weakness in the international monetary situation deserves notice here. A considerable number of important countries have depreciated paper money. Italy, Spain, Greece, the Argentine Republic (to mention no others) are in this plight almost inextricably. Russia is making ready to get free of it, and Austro-Hungary is in the thick of the attempt to do so. The depreciated and unstable standard of these countries is not only an evil for them, but for the other countries which are in commercial and financial connection with them. It causes irregularities and disturbances in international trade at least as great as those which arise from the fluctuations in silver exchange, though it may be suspected that here, as in the case of silver, there has been some overstatement of the extent of the effects. In any case the situa-

which, though their quantity was determined by silver purchases, are in legal effect precisely like the rest of the government paper. If they are added to the silver, it would amount to 550 millions.

tion is highly unsatisfactory, whether in its domestic or in its international aspects. Each of these countries needs to accumulate a considerable stock of full value specie in order to bring its currency to a healthy condition. The question may fairly be asked, If gold is to be the only full value specie, is a sufficient supply available? No one of these countries would now wish to resume on a silver basis, nor indeed would secure a clear and great gain by doing so. If, on the other hand, silver were as completely serviceable as gold for use as standard money, the supply of specie available would be enlarged, and resumption would be easier.

So much is true; but, on the other hand, it is questionable whether there is much probability of any serious obstacle from a deficient supply of gold for those countries which really mean to get rid of their paper. In the past, the considerable accumulations of gold by the countries which have restored their currencies to a specie basis have taken place, as the low bank rates of discount testified, without visible strain. Germany in 1871–73, France in 1876–78, the United States in 1879–81, and Italy in 1881–83,* each in succession got together a large stock of gold preparatory to the establishment or resumption of the gold standard. In more recent years Russia and Austria have accumulated large stores for the same purpose. Had all these demands on the world's stock of gold come together, they might have been a cause of real strain. Coming as they did in succession, they have been met without general difficulty.† The signs of embarrassment from such movements would have appeared, as has

* The reader may be reminded that Italy, having resumed specie payments in 1883, has now become unable to maintain them, and has relapsed to the present condition of irredeemable paper.

† The demands of the United States for gold in very recent years have indeed been a source of difficulty to this country; but the cause of trouble here has been the general rash policy of the silver and paper issues, not anything inherent in the gold situation. Of this more presently.

just been intimated, in high rates of discount at the financial centres whence the specie was in the first instance drawn; but no considerable effect of this sort was seen. If in the future all the countries now having depreciated paper were to prepare simultaneously for resumption in gold, the situation might become threatening. But such a contingency is obviously improbable. The financial situation of few of the countries mentioned is such that they can move rapidly and easily toward resumption. When they really wish to resume, they may probably find that they can join the gold ranks without meeting difficulties from a scant supply. Given prudent management of the currency and of the finances, a moderate supply of specie suffices for the passage from a paper basis. The lack of such prudent management, and the unwillingness to meet the fiscal burdens which it involves, are much stronger obstacles to the adoption of a specie basis in the countries now having irredeemable paper than a deficient supply of gold. At all events, looking to the demands which, in fact, are likely to appear, and having regard to the great improbability of their being massed in any one short period, we may conclude that this difficulty is less important in the concrete than it might be if all countries were agreed to adopt a prudent and conservative monetary policy.

Third among the evils ascribed to the present relations of silver and gold is the fall in prices, or appreciation of gold. On this much the greatest stress is laid, and with reason. A general fall in the scale of money payments causes great ills and great injustice. The other evils can be borne; but, if to them is added a continuous and irresistible tendency to a higher value of money in all transactions, the situation may naturally be judged unbearable. A steady rise in the purchasing power of money means a steady increase in the burden of debts and a gain to

creditors at the expense of debtors. Hence men whose social sympathies are strong are stirred by the demand for an enlargement of the monetary supply, and associate monometallism with a generally unfeeling and hard-hearted political economy. The question of appreciation is the crucial one in the bimetallic controversy.

Here two things may at once be admitted. There has been a strong tendency to lower prices of commodities, and this tendency would have been counteracted in some degree by the use of silver on the same terms with gold.

The fall in prices has unquestionably taken place. It is not out of accord with a common usage to speak of it as an appreciation of gold, though that phrase contains implications both as to the cause and as to the effects of the change which, at the outset at least, it is best to avoid. At all events, the monetary unit, resting on gold, can now buy more of commodities than it could a generation ago. No doubt the extent of the fall is often exaggerated by the bimetallists. It is common to take the year 1873, when the so-called demonetization of silver took place, and compare the prices of that year with those of later times. The year 1873 marked the climax of a period of speculation and inflated prices. Yet even after comparison with more normal years of the period before demonetization a distinct fall remains. Its measurement is perhaps the most difficult of statistical problems. The figures of index numbers, even when most carefully calculated, are but rudely significant of the actual course of complicated events. It appears to be certain that the fall in the last twenty years has not been in the ratio of 2 to 1, as is implied when the gold dollar is spoken of as a "two-dollar dollar." Probably the fall is as great as in the ratio of 4 to 3, possibly as great as in that of 3 to 2. It suffices, for the purposes of the present discussion, to have a rough generalization of this sort. A distinct fall in the prices of most commodities has taken place.

Further, that fall probably would not have taken place, at least not in the same degree, had silver been freely coined on the same terms as gold by a considerable number among the advanced countries.

Probably, but not certainly; for we touch here a topic on which it behooves us to speak with great caution. The free use of silver in such manner as to permit all of it to enter into circulation in advanced countries would have added to the metallic monetary supply in these. How great the addition would have been, over and above what has been used as matters stood, is hard to say. A great deal of the silver, or of gold displaced by silver, would have found its way to the East, and so would have ceased to affect prices in the West. On the other hand, the production of silver, if its price had been higher, might have been much greater, and the amount offered for coinage consequently larger. And, even admitting a substantial increase in the quantity coined and available for circulation, it is not clear how visible the effect on prices would have been. Economists are well-nigh unanimous in rejecting the doctrine that the general range of prices fluctuates easily and quickly with changes in the quantity of metallic money. They are probably equally agreed that in the long run a steady and large increase in the metallic supply does have its effect upon prices. But something more, both in the way of general reasoning and of carefully observed experience, is still needed before any confident prediction is possible. A sharp and rapid increase in the quantity of money massed in a single country has an unmistakable effect in raising prices there. So much seems to be proved by paper money experience like that of the United States in the Civil War, and metallic experience like that of Australia and California during the early period of the great gold discoveries. A slow and steady accumulation of specie spread over many countries may be expected to produce a tendency

to rising prices or to counteract a tendency to falling prices. During the last two decades, however, specie has been plentiful. It has overflowed from the channels of every-day circulation into the vaults of the great banks, notwithstanding continuing low rates of discount, which show that the banks have made no endeavor to attract it. Yet no effect in raising prices has appeared; nor even any observable effect in checking the fall, such a counteracting effect being likely to appear in a ready use of the bank loans which have been freely offered. It may be that a still greater accumulation of specie, from a wider use of silver, would have had a more stimulating effect than the actual accumulation of gold and of overvalued silver has had. We are, indeed, forced to believe that a very considerable increase in the metallic supply must have eventually affected prices. But how much must have come, and how soon, and to what extent an effect would have appeared,— on these questions we are so much in the dark that the temptation is strong not to hazard a general statement even of probable tendencies. If, therefore, it is admitted that the decline in prices would have been prevented or moderated by the free use of silver on the part of the great civilized countries, the admission is to be taken with the reservations inevitable from our uncertainty both as to the degree of efficacy in the supposed cause and as to unforeseen elements which might have modified the expected results.

So much as to the general tendency to falling prices and the mode in which the increase in the metallic supply bears on it. But there is more to be said. *Pari passu* with the decline in the prices of commodities, we have seen another tendency which is of signal importance in regard to the social effects of the monetary changes. While prices of goods have gone down, money returns for labor and exertion have not.

Here, as in the case of falling prices, we may content

ourselves with noting the broad facts of the case. Money wages of manual laborers, such as are most frequently the subject of statistical inquiry, appear to have gone up in the United States and in Germany. They have been at least stationary in England, probably in France. Nowhere is there evidence of a decline in wages in sympathy with the decline in prices.* On the incomes of the well-to-do, we have little precise evidence; but the familiar facts of every-day life show beyond question that they have risen rather than fallen. On all hands, the scale of expenditure has gone up. A greater income is deemed necessary to maintain a given social standing,—sure sign that the habits and traditions of the community have adjusted themselves to a higher range of money returns.

This inverse movement of prices and money incomes obviously means a general advance in well-being. The means of purchasing have grown, the prices of the articles of consumption have become less. The whole is the natural result of the extraordinary advance in the arts of production. The total quantity of purchasable goods has swelled enormously, the real income of the community in enjoyable commodities has increased even more than the sum of the money incomes of the individual members, material prosperity has augmented.

Not only this; but the evils which are supposed to flow from the decline in prices take a very different appearance when considered in connection with the rise of money incomes or their maintenance at a level. Neither the aggra-

* It is sometimes suggested that, while the money rate of wages has risen, employment is more irregular than in former days, and total money receipts hence less. But I am unaware that any satisfactory evidence has been found or can be found to prove or disprove this statement, or that there is anything in the general probabilities of the case to show that irregularity of employment is greater than in earlier periods. We know more of it and hear more of it, but it is not clear that there is more of it. The very fact of a rising tendency in the rate of wages is strong presumptive evidence that there is no increasing pressure for employment, such as would be inevitable if a larger proportion of laborers were in search of work.

vation of the burden of debts nor the handicap on general industrial activity is of such all-embracing character as the bimetallist propaganda would lead us to think.

Evidently, the case is very different from that in which not only the prices of goods, but money incomes as well, undergo a fall. In the latter case there is an unrelieved hardship for debtors. They give their creditors more goods than they had received, and themselves are getting for their labor, or other source of income, less money and no more goods than before. But, where money incomes remain the same or rise, the debtor can hardly be said to suffer hardship, and certainly is conscious of none. There is nothing in the situation to disturb the usual measurement of prosperity and adversity, of debts and of payments, in terms of money. During the continuance of the debt both debtor and creditor gain by the fall in prices, the one as to his free income, the other as to his accruing interest. When payment is made, the creditor can buy more goods than when he made the loan; but the debtor has no diminished resources to meet the payment, and gains for his part as to his unfettered means. That this outcome is in conformity with perfect justice would doubtless be difficult to prove, especially in view of inevitable differences of opinion as to what is the criterion of perfect justice. Under the conditions of rapid advance in the arts of production, theoretic justice, at best hard to define, presents a peculiarly complicated problem. Considering that in any case it is impossible to secure by legislation more than a rough approximation to any ideal, we may be content with the existing situation, which certainly brings no obvious general hardships nor wide-spread injustice ascribable to general monetary causes. It is absurd to speak of improvements in production as due either to debtors or to creditors, or of either set of persons as being entitled to the major share in the results of improvements. So far as any class is specially entitled to claim

them, it is the class of active business men who are both creditors and debtors. Nor is there substantial ground for complaining of a general and progressive impoverishment of debtors for the enrichment of creditors. Taking debtors and creditors the world over, it can be said that their relations have shown probably as near an approximation to justice and as little disturbance from monetary causes as is likely to be secured under any system we can now find.

Unquestionably, some debtors have suffered hardship; but a survey of the classes and regions where hardship appears and whence complaint comes points to causes little connected with a deficiency in the monetary supply. The complaints come almost exclusively from certain kinds of agricultural districts. Lending and repayment go on elsewhere on an enormous scale; but in the eastern and central parts of the United States, and in the European regions with diversified industries, the demand for a change comes rather from the academic ranks than from the supposed sufferers. The direct complaints come mainly from those landed interests whose economic position has been so profoundly affected by the great improvements in transportation. The industrial change wrought by the railway and the steamship has nowhere been more revolutionary than in the new conditions which it has brought for agriculture. Transportable products are carried over distances not dreamed of half a century ago; and many products formerly thought to be non-transportable are carried hundreds and even thousands of miles. Add to this the opening of new and often fertile lands, the land hunger of millions eager to secure for themselves a piece of earth of their own, and now able to satisfy their wish with the minimum of capital at the start, and we have the main explanation of agricultural depression, applicable both to the pioneer farmer of the West and to the debt-ridden land-owner of England and Continental

Europe. The hardships arising during this period of transition, and the frequent misfortunes of those who became debtors in its course, are not to be denied. But they would have been mitigated little, if at all, by any monetary changes or any wider use of silver; and they will not be mended in the future by any such change in monetary conditions as is here under discussion. Sudden depreciation of the currency of any one country would indeed enable existing debtors — both those whose case is hard and the larger number whose case is not — to get rid of their burdens more easily. But a wider use of silver, spread over many countries, would affect prices and incomes so slowly that the relief to those now heavily burdened would not be sensible.

Much of what has been said of the general relations of debtor and creditor applies to the other part of the indictment against falling prices,— the supposed depressing effect on industrial activity, and more particularly on the energy and spontaneity of the business man. From the jeremiads which have been sung over the sad fortunes of the active managers of industry, one would infer that money-making had become a lost art, and would be at a loss to account for the general activity, the rising fortunes, the new scale in measuring financial success. In fact, the fall in prices is rather a result of the fortunes of the business man than a cause of his misfortunes. The great improvements in production, which have been in large part initiated and almost solely directed by him, have poured into the markets of the world a steadily increasing volume of goods for sale, and have been the proximate cause of the fall in prices. The total money proceeds have been more, not less; and these larger money proceeds have not only yielded larger gains to the business man, but have been the proximate source of the higher money wages of hired laborers. Obviously, not any and every business man has shared in the gains: only those have done so who

kept pace with the march of progress. The incapable, the unenterprising, the unfortunate, have fallen by the way. The wider diffusion of education and opportunity have sharpened the competition for the control and management of industry, and have tended to diminish the reward of humdrum, middle-class business work; while the opportunities for those having boldness, capacity, judgment, are greater than ever before. These are again great social changes, all of whose effects, like those of the agricultural revolution, it is impossible now to forecast. But the proposition that the class of business men has failed to prosper, or that there has been a steady drag on energy and enterprise, is, in my judgment, plainly contradicted by familiar facts of every-day observation.*

The contrary proposition, that steadily rising prices are advantageous in the stimulus they impart to industry, has an unfortunate resemblance to teachings about the blessings of plentiful money, which all sober thinkers have agreed it is undesirable to encourage. We may set aside the question whether a universal fall, not only in prices, but in money incomes also, would operate as a distressing drag on enterprise. The case is not before us, and has not been. We have had, in fact, slightly rising or stationary incomes, with prices falling moderately. The alternatives (if material progress is to continue) are stationary prices with rising incomes, or rising prices with incomes rising still more. Whether such a state of things as the latter alternative contemplates would be healthy for the steady conduct of industrial affairs is, at least, questionable; and it is even more questionable whether it would secure for creditors that measure of justice to which they are fairly entitled. But — more important, and a greater source of danger — the process, as familiar

* I have ventured in the last few paragraphs to repeat, for the sake of completeness in the discussion, substantially what I have already said in the second part of my *Silver Situation in the United States.*

experience with periods of inflation proves, will generate an appetite growing with what it feeds on. The stimulus will last only if the dose is steadily continued and indeed increased. A sufficient increment of specie will not always appear, not to mention the uncertainty of its easy effect on prices; and then a community which has been inoculated with the intoxicating doctrine that rising prices are always to be desired will not easily resist the temptation to try paper, if specie will not readily act. This sort of teaching, at best of very dubious validity, is a very dangerous tool to meddle with.*

Before leaving this topic of falling prices and appreciation, I would ask the reader to bear in mind that social questions have here been considered solely in their relation to the monetary situation. To say that the demonetization of silver and the fall in prices have not been the causes of all-embracing social difficulties is by no means tantamount to saying that there are no social difficulties. Both the agricultural revolution and the trying position of the manager of business in face of the great improvements in production have had their grave social effects,—some clearly good, some clearly regrettable. The fall in agricultural prices has shaken the position of great multitudes of debtors; it has made much land and much farming unprofitable, and so has lessened the attractiveness of an occupation always deemed a bulwark of social stability; it is part of the same change which has led to the heaping of population in urban centres, with all its new and difficult problems. The great improvements in pro-

* President Francis A. Walker, who has urged the desirability of rising prices more strongly than any other writer of standing, suggests that the advantages which accrue from a specie inflation do not appear in the case of paper inflation. See his paper on *The Relations of Changes in the Volume of Currency to Prosperity*, in the *Economic Studies*, published by the American Economic Association, vol. i. No. 1, p. 32. Why not? The question is simply one as to the moderation of the issues, and as to the probability that the public — especially the democratic public — will keep within those lines of supposed moderation which his adviser traces out for him.

duction, by which the daring and capable business man has profited, while his less enterprising rival has fallen by the way, have been accompanied by a greater concentration of industry, by methods of competition at once more keen and more spasmodic, greater tendency to consolidation and monopoly, larger opportunities for huge aggregations of capital under single management, a less democratic organization of industry. These are changes not to be ignored or belittled. They have been largely coincident with the monetary changes of the last quarter-century. But surely they have been in no appreciable degree caused by them. Nor is it probable that the main course of the great industrial revolution (such it is that this generation is witnessing) would have been changed or its effects mitigated by a wider use of silver since 1873. Therefore it is not to be supposed that a person in sympathy with the movements for social reforms which have also been coincident with the industrial revolution must be committed in one direction or another as to the monetary question. We are sometimes given to understand that bimetallism goes with a spirit of sympathy for the poor and oppressed, while the gold standard is associated with indifference to suffering humanity. There is doubtless a good deal in the general attitude of many who advocate monometallism which gives color to this impression. Yet, in reality, the monetary questions and the social questions are mainly separate, and appeals to class feeling and class prejudice, unprofitable at best in any economic discussion, are quite out of order in reference to the general silver situation. And certainly those who maintain that the monetary régime of the last twenty-five years, unsatisfactory as it has been in many respects, has not had the disastrous social effects so often attributed to it, are at least entitled to belief in their public spirit and in their sympathy with movements for reform that promise to be really effective.

II.

We may now proceed to consider the second part of the argument. Let it be assumed that both silver and gold are freely coined at the same ratio by a large number of important countries. What consequences would ensue?

It may be admitted at the outset that this scheme, in its strictly economic aspects, is not so hopelessly impracticable as many of the advocates of a gold standard assert. Such an agreement might secure, at least for a considerable length of time, the concurrent circulation of gold and silver, and might maintain the market price of silver so near the mint price that the intrinsic value of the silver coins would be practically the same as that of the gold coins. This statement is to be taken with large reservation and qualifications, presently to be mentioned. It may be qualified at the very outset in one direction,— by pointing out that an international agreement would encounter much greater difficulties now than if it had been adopted in 1873 and firmly maintained thereafter. If adopted at the crucial time, it might very probably have secured, at least up to the present, the direct results as to the gold price of silver which are now expected of it; and, accordingly, it might have prevented many of the monetary difficulties which have since appeared. But it is much harder to regain a position than to retain it. The obstacles in the way of the rehabilitation of silver have grown much stronger from their accumulation during two decades. Nevertheless, even at the present it cannot be said that the thing is flatly impossible. Nor is it necessary, to make an international compact of possible effect, that all the world should join in it. It might suffice at the outset if four of the most important were to accede,— France, Germany, the United States, and Great Britain with British India. These might not

improbably be joined, when once they had fairly entered on the task, by the other countries whose refusal, if long continued, would create difficulties. If it be objected that gold would be expelled from the circulation of the countries trying such an experiment, the strong answer is that under the adhesions supposed there would then be no great industrial area to which the gold could betake itself. Nor would it much matter, at the beginning, whether the ratio for free coinage were the traditional one of 15½ to 1, or one more nearly in conformity with the market price of silver in recent years. The ratio chosen must affect seriously the eventual outcome,— of this more will be said presently; but for the first few years any ratio from 15½ to 1 upward could probably be maintained.

So much may be admitted on grounds of simple deductive reasoning. On this topic, however, as on any in the range of economics, we cannot rely too confidently upon simple deductive reasoning. The test of experience is necessary, here as elsewhere, to verify our conclusions; and it cannot be said that we have any experience that tells precisely on the subject in hand. Conclusions drawn from the experience under the bimetallic régime in France are not much to the point. At the present time we have a great divergence between the market value of silver and any mint ratio which has been proposed; and we have, moreover, among the commercial and financial classes certain prejudices in favor of the use of gold which, whether reasonable or unreasonable, must prove important factors in the situation. The experience of California during the paper issues of the Civil War is not without its lessons.* As gold there was in every-day use, and the paper, though legal tender, was bought and sold at a discount, so it is conceivable

* See the article by Professor Bernard Moses, on *Legal Tender Notes in California*, in this *Journal*, vol. vii. p. 1.

that under a bimetallic régime, in a community which objected to silver, gold would be used in fact, and silver would be at a discount. Yet, if we suppose the political and diplomatic obstacles to be out of the way, and assume that the various governments, especially those of England and the United States, would not act unless supported by a strong public opinion, this particular difficulty might not prove serious. We are justified, at all events, in reasoning on the assumption that an international agreement for coinage at a common ratio might achieve, for a while at least, its immediate object,—the complete rehabilitation of silver and the concurrent circulation of the two metals.

First, let it be noted that this change, supposing it to have been brought about, would have no further immediate effect than to remedy the two evils described in the earlier pages of this article,—irregular fluctuations in the foreign exchanges between silver-using and gold-using countries, and the embarrassments from an overvalued silver currency. Unquestionably, these two evils would be cured. No prompt change, however, would take place in the conditions affecting the range of prices in the world at large. There might be a considerable redistribution of the total stock of specie, but no immediate increase in the total amount of specie in any one country or in all the countries combined, nor any direct change in the causes affecting the general range of prices. If, indeed, a single country were to adopt the free coinage of silver at any ratio as yet proposed, the presumable effect would be a marked increase in the metallic constituent of its circulating medium, and, after some interval of perhaps no great length, a marked rise in prices; but general bimetallism would affect prices the world over very much more slowly. Even a great increase in the production of one or the other precious metal might go on for years without visibly affecting international prices. The difficulty of mak-

ing predictions on this subject has already been referred to. A great stimulus to the production of silver might have serious effects on the stability of the international compact, but its economic effects would be slow in their operation.

The economic possibilities and probabilities, however, are only a part of the supposed situation. The political and diplomatic factors are of at least equal importance. The success of the scheme would depend absolutely on its stability, and, therefore, on a high degree of good faith and mutual confidence among the contracting governments, and of forbearance and support from commercial communities. Let it be supposed, for example, that in the course of trade between the countries belonging to the international union a large outflow of specie from one to another takes place. That specie may be one metal or the other. It is supplied in the first instance from the reserves held by the great financial depositaries. These depositaries are in very large degree under public management. They must also in very large degree accommodate their policy to the desires of the commercial communities whose needs they serve. For international payments gold would be naturally asked by the bullion shippers as the least bulky and the cheapest to transport. But the question at once presents itself whether each community and each depositary would not think it advantageous to retain its gold, and to promote (very likely by indirect means) the shipment of the silver whose value was dependent on the maintenance of the international compact. In case of a flow of specie from France to Germany, it is enough to recall the state of public feeling indicated by those marvellous jealousies as to the merits of French painters and German musicians; or, to come closer to the economic world, the mode in which commercial treaties have been dealt with; or, to come still closer to the immediate question, the military prepa-

rations and the watchful eyes on the gold holdings for the possible exigencies of war,—and it becomes apparent what working difficulties would be encountered by the international agreement. If these are the dangers of peace, what would be the effects of war? On the other side of the Channel, consider the preferences and traditions of the commercial and financial community of Great Britain, the position of London as the great centre of international exchanges, the government of the Bank of England by public opinion, and the position of the Bank if specie were demanded in large sums for remittance to the United States, Russia, or Germany. The experience of the last twenty years shows abundantly that the adoption of an international agreement is difficult, almost to the verge of impossibility; but it would seem that its difficulties would only begin with its adoption.

Speculation on this subject may be advantageously carried in another direction,—as to the effects of a possible great increase in the production of silver.. Abstractly, we may conceive of a great mass of newly mined silver as distributing itself equally over the various countries which admitted it to their mints on the same terms, and as affecting the currency of one no more than of the other. In fact, however, an increased supply would exercise its effects first in the country where the mines were situated, and then in the countries most closely in commercial contact with the mining country. Wherever it appeared, it would tend, in the first instance, to displace gold. Then the jealousies and difficulties described in the preceding paragraph would again appear, in a degree proportioned to the extent of the new supply of silver and the redistribution of the international stock which its appearance would necessitate.

A greatly increased production of silver, however, would not affect merely the working and the immediate political prospects of the supposed agreement. It would be of fun-

damental importance for its permanent success, even if all national jealousies and diplomatic difficulties were overcome. After all, it cannot be maintained that the ratio for coinage of the two metals can be fixed entirely without regard to their relative costs of production. No one would seriously propose to coin at the ratio of 4 to 1, or at that of 100 to 1. Some approximation to the value which the metals have from their modes of occurrence in nature must be maintained. In a preceding paragraph it was granted that an international agreement at 15½ to 1 would secure concurrent circulation — for a time. But, if it appeared that this ratio was as unduly favorable to silver as the present market ratio seems to indicate, the result would be secured for a time only. If it stimulated very greatly the production of silver, the eventual rise in prices would check the production of gold, and stimulate its use in the arts; not to mention the probability that an ominous flood of silver would lead to a leakage of gold through every chink left open in the commercial world, a precautionary hoarding of it, and an early disruption of the international agreement. The more extreme among the monometallists sometimes taunt the other side with their perplexities over the ratio. The response is in a way sufficient: that it makes no great difference what ratio is chosen,— any will do. True, any may do for a while; but, in the end, the conditions of physical nature and human labor-power must be followed.

The rational ground on which an international agreement at any particular ratio —15½ to 1, or 16 to 1, or 30 to 1 — may be advocated is that it conforms, roughly and in the long run, to the relative costs of the larger part of the output of gold and silver. Great finds and enormous profits may be disregarded if they affect only a fraction of the annual supply, or if they last only a few years. And so we find it maintained that the market ratio of recent years — 30 to 1, or thereabouts — is not significant of the

permanent relative costs or normal relative values of the two metals. The decline in the price of silver is said to be due partly to a sudden contraction in the field over which the supply could spread — the so-called demonetization of 1873 — and partly to a few temporary finds in rich mines. The testimony of geologists and mineralogists is invoked to show that the sources of supply of silver are not unlimited, its mode of occurrence comparatively regular, and its future assured.

Frankly, it must be confessed that here we are largely in the dark. No one can say or predict what will prove to be in the long run those average or permanent relative costs of the two metals to which an international ratio must finally conform. What with the discovery of new mines, and great mechanical and chemical inventions in treating ores, it is possible that we are witnessing a great secular change in the relation of silver and gold, such as took place in the course of the sixteenth century. On the other hand, it is maintained that the events of the last twenty-five years are but a flurry in the history of the precious metals, and that, but for the accidents of legislation, no change in their relative value would have occurred. This is not impossible; but, so far at least, it is contradicted by the remarkable increase in the production of silver in face of its falling price. The last twenty years have seen a greater and more rapid fall in the gold price of silver, and in its purchasing power in civilized countries, than had ever been seen before. It might be expected that under such circumstances the output of silver would be diminished. In fact, though the price has fallen one-half, the annual output has almost tripled. For the five years 1866–70 the average annual product was 43 million ounces,— a larger quantity than any previous quinquennial period had shown. For 1871–75 the annual average was 63 millions; for 1891–95 it was 160 millions. This increase took place notwithstanding an almost un-

interrupted fall in price, from $1.29 an ounce at the beginning of the period to 65 cents in the year 1895. With the cessation, in 1893, of purchases of silver by the United States, and the suspension of free coinage in the same year at the mints of British India, the fall became very striking, and the price of silver reached a point never dreamed of before. Yet the world's production continued to increase, and was markedly greater in 1895 than in 1894. It is doubtless possible that this great outburst, in the face of falling prices, is but an accident, and no indication of the permanent conditions of production or of the normal ratio between silver and gold; but, at the least, further evidence may be asked for before the world, on the strength of such an assumption, enters on legislation wide-reaching in its effects and hazardous in its outcome.*

On the other hand, we have to consider and to await the future of the production of gold. Here, too, the predictions of the geologists, well founded though they may be for the long cycles with which their science usually deals, are but a slender basis for action during shorter periods. As a matter of fact, the average annual production of gold during the last twenty years has been greater than in any previous period in the world's history. Since the great discoveries of gold in California and Australia in the middle of the century, there has been no considerable relaxation in the annual production. In very recent years a remarkable increase has taken place; and, apparently, we are now on the eve of a new burst in its production, even more remarkable than that which followed the Australian and Californian discoveries. Under these conditions it is easy to see how the great demands of the last two decades have been met without serious monetary strain, and it is difficult to maintain that the future portends any disastrous scarcity. It would be

*For convenience of reference the important figures as to the production of gold and silver, and the price of silver, since the middle of the century, are

rash to predict what the future may finally bring, and still more rash to base legislation on assumptions either of an unending increase or of a rapid diminution in the yield of the new sources of supply. But it is safe to say that the prospects for a sufficient supply of gold are, at the least, not discouraging for the immediate future, and that we may pause and await developments, without danger of industrial strangulation or of the prostration of debtors from a contraction of the gold supply.

here given. The figures are those of the Director of the Mint, derived for the earlier years from Soetbeer's tables. For 1895 the product both of gold and of silver is estimated.

		Product in Million Ounces.		Average price of silver per ounce.	Commercial ratio of silver to gold.
		Gold.	Silver.		
Annual average,	1851–55	6.4	28.5	$1.34	15.4
" "	1856–60	6.5	29.1	1.35	15.3
" "	1861–65	5.9	35.4	1.34	15.4
" "	1866–70	6.3	43.0	1.33	15.5
" "	1871–75	5.6	63.3	1.29	16.0
Year	1873	4.6	63.3	1.30	15.92
"	1874	4.4	55.3	1.28	16.17
"	1875	4.7	62.3	1.25	16.59
"	1876	5.0	67.7	1.16	17.88
"	1877	5.5	62.7	1.20	17.22
"	1878	5.8	73.4	1.15	17.94
"	1879	5.3	74.4	1.12	18.40
"	1880	5.1	74.8	1.15	18.05
"	1881	5.0	79.0	1.14	18.16
"	1882	5.9	86.5	1.14	18.19
"	1883	4.6	89.2	1.11	18.64
"	1884	4.9	81.6	1.11	18.57
"	1885	5.2	91.6	1.06	19.41
"	1886	5.1	93.3	.99	20.78
"	1887	5.1	96.1	.98	21.13
"	1888	5.3	108.8	.94	21.99
"	1889	6.0	120.2	.93	22.10
"	1890	5.7	126.1	1.05	19.76
"	1891	6.3	137.2	.99	20.92
"	1892	7.1	153.1	.87	23.72
"	1893	7.6	166.1	.78	26.49
"	1894	8.7	167.7	.63	32.56
"	1895	9.8	174.8	.65	31.60

We thus finally reach some conclusion as to the policy which it is expedient to pursue in regard to the general gold and silver situation. It is a very simple one,—to wait and see what the future may bring. The problem of the general use of the two metals by the world at large is not ripe for solution. Let us retain the *status quo.*

It is often intimated that the choice now before the world is between monometallism once for all and bimetallism once for all. Either silver must be rehabilitated or it must be discarded. But, certainly for the visible future, the choice is not between the two extremes. There are, indeed, those who propose to extend and perfect the gold standard at once in every possible direction, to get rid of silver except for subsidiary coin, and to establish in all advanced countries gold monometallism in that sense. Possibly, this will eventually be done. The world may be divided, in the course of a generation or two, into gold-using and silver-using countries, with gold the only full-tender coin in the former. On the other hand, it is possible that we shall finally come to international bimetallism or some other form of international action. Meanwhile, it is possible — and, all things considered, it is wise — to maintain the gold standard, leave silver as it is, retain the overvalued coins which are now in circulation, and endure the inconveniences and evils of this arrangement until it appears that something better can be established and maintained. After another stretch of years, during which the production of the precious metals shall have been carried on under conditions like those of the present, we shall be able to judge better whether gold is likely to be inadequate in supply, and whether silver now sells at a price much below the cost of production for the larger part of the output. We shall then see our way more easily to a policy that promises to achieve permanent and successful results.

Evidently, a waiting and tentative attitude of this sort

cannot be satisfactory to those who find the existing situation unendurable, and, more especially, believe it to cause grave social injustice. He who is convinced that there has been an appreciation of money in every direction, a grave and continuing wrong to all debtors, and a handicap to all industrial enterprise, may be expected to reject with scorn a policy of opportunism, and to demand an instant remedy. Indeed, it is easy to see how such a person may refuse to stop short at international bimetallism. The prospects for international action do not become better as time passes; and, if the gold standard is really the source of all ills, it may be fairly urged that some one country must take the leap to silver alone, trusting that others will follow, and that in any case some of the strain under the present pressure will be diminished. Those, on the other hand, who believe the existing evils to be less serious and less in danger of aggravation, may be content to endure them until something clearly better is in sight. In the preceding pages the grounds have been stated for the belief that no serious disturbance, due to general monetary causes, has taken place in the relations of debtors and creditors, and that the existing evils mainly impair the solidity and the satisfactory working of the machinery of exchange. These can be borne now without disaster; some may remedy themselves in the course of time; others can be removed or alleviated by measures much less ambitious than the international rehabilitation of silver.

In the United States, more especially, the pressing need of the immediate future is to establish the currency more solidly on a gold basis. For this it is the will rather than the way which is lacking. The excessive and unmanageable issues of paper and silver must be reduced in volume, and the fiduciary currency must be made to conform with greater readiness and elasticity to the community's need of a circulating medium. Among the issues for which

the government is directly responsible the paper money which it now endeavors to keep convertible into gold is the source of greater immediate difficulties than the silver, and is more insidious in its temptations. If the United States notes and Treasury notes were got rid of, and their place filled by a secure and elastic bank currency,—the silver being left as it is,—the situation would be, doubtless, not perfect, but reasonably satisfactory, and at all events not unendurable to the degree that the present chaos is. But this is not a place for a discussion of the complicated questions which arise as to the needed remodelling of our monetary system. It suffices to point out that the difficulties do not arise from any serious obstacles in the way of getting and maintaining a sufficient supply of gold, but from the haphazard legislation which has given us a redundant currency, and a government Treasury not equipped, and hardly likely to be equipped, with the means of keeping it permanently in a safe condition.

No other among the leading countries, however, has so large and involved a monetary problem on its hands as the United States. It might indeed be difficult to secure gold in sufficient quantity to saturate the circulating medium of all countries with that metal to the extent to which the every-day money of Great Britain is saturated with that metal. But the example of Great Britain itself shows how large a superstructure of currency in the form of credit instruments can rest on a comparatively narrow basis of specie. On the other hand, where the credit structure is less, as in France, the evils of an infusion of overvalued specie are so much the less threatening. To serve as the basis for the total circulating medium; to be in use in such quantities as to perform without embarrassment the functions of an international medium of payments; to afford the test of ready convertibility for all forms of fiduciary issue,—for these purposes there is

no indication that the supply of gold is now deficient. The evils of the present situation are thus not unendurable; the way to a reasonably satisfactory monetary system, on the basis of the gold standard, is not impossible to find; the future relations of the metals are uncertain; and, though there is no ground for too cheerful an optimism, it is as well to bear the ills we have rather than fly to others that we know not of.

F. W. Taussig.